



International market headlines

- Officials from 16 countries, within and outside OPEC, have failed to reach agreement at a meeting aimed at freezing output and reassuring markets that a recent recovery in prices could be sustained, despite the fact that the initial draft of the agreement has been partially redesigned. Saudi Arabia and several other OPEC countries, including the UAE, have changed their position on the issue of "freezing" and put forward additional requirements after Iran did not send a representative to the meeting. According to some of the participating countries, the market situation does not require an urgent decision. The price of oil has dropped sharply after a meeting of oil producers failed to agree. Presumably, a new meeting on the "freezing" will be held on 2nd of June in Vienna, Austria. Oil prices tumbled in Asian trading as a result, with the price of Brent crude oil down more than 5%, to \$40.9 a barrel.
- Iran's oil and gas industry will require \$185 bln in investments for 2016-2020, acting Deputy Petroleum Minister Masoud Hashemian Esfahani said. "Oil and Gas upstream — \$85 bln, downstream oil — \$10 bln, gas downstream — \$10 bln, petrochemical sector — \$80 bln," Esfahani said at a press conference in Moscow. Masoud Esfahani noted that in accordance with the law on stimulation of foreign investments, Iran provides benefits for work in undeveloped regions and special economic zones, ensures preference prices for oil and gas used as raw materials, and guarantees non-discriminatory attitude towards foreign investors.
- On 7 March the Monte Toledo oil tanker covered the uneventful voyage from Iran to Europe with a haul of 1 mln barrels of crude in just 17 days, but its journey has been four years in the making. The tanker became the first to deliver Iranian crude into Europe since mid-2012.

Brent, WTI and Urals spot prices

(1 Feb' 2016 - 20 Apr' 2016)



Source: EIA, <http://www.topoilnews.com/>

Brent Crude Oil Forecasts

Year	Consensus Bloomberg	Number of forecasts	IEU
2013	-	-	108,9
2014	-	-	98,9
2015	-	-	53,4
2016	53,2	47	40,3
2017	62,8	37	55,5
2018	69,9	21	67,5
2019	71,6	13	62,8
2020	-	-	61,8

Source: Consensus Bloomberg, IEU

<http://gfs.eiu.com/Article.aspx?articleType=cf&articleId=1243614708&secId=0>

International market headlines (continued)

- The Energy Information Agency (EIA) of the US Department of Energy has lowered its 2016 and 2017 estimates for U.S. crude-oil production and forecasts for West Texas Intermediate crude prices. According to March Short-Term Energy Outlook, it forecasts average U.S. crude output of 8.67 mln bpd for 2016, down from a prior estimate of 8.69 mln. For 2017, it sees output of 8.19 mln barrels a day, down from a previous forecast of 8.46 mln. WTI prices are seen at \$34.04 a barrel this year, down from a prior estimate of \$37.59, the EIA said. For 2017, it expects to see \$40.09 a barrel, down from a prior (February) forecast of \$50.
- The Platts takes steps to protect Brent as a benchmark for the oil market from the effects of declining production in the North Sea, writes Financial Times. According to the Agency, the supply of North Sea oil will be reduced from 53 loads (each load is about 600 thousand barrels) per month in 2015 to 38 per month in 2020 and 20 per month in 2025. Platts on Monday presented a plan to create a new valuation BFOE streams for delivery to Rotterdam, including the cost of freight and transportation. According to experts of Agency, in a new system if necessary, you can add other types of oil, including from Africa or the Middle East.
- According to OPEC March report, OPEC crude production decreased by 175 thousand bpd to average 32.28 mln bpd in February, while global oil supply fell by 210 thousand bpd to average 92.73 mln bpd. According to the organisation, last month, oil supply has increased by 30 thousand bpd, including 131 thousand bpd of OPEC oil supply. Crude oil output in February decreased mostly from Iraq due to interruptions in oil delivery from northern parts of the country (by 263 thousand bpd, in 2015 Iraq increased oil output by more than 1 mln bpd), Nigeria (by 94 thousand bpd) and the UAE (by 49 thousand bpd). At the same time, the losses were partially offset by rise in Iran's production (by 187.8 thousand bpd against output in January).
- U.S. price reporting agency Platts will launch a new crude benchmark on 14 March, Jonty Rushforth, director of the agency's oil and shipping price group said on Monday. The benchmark will be called Dated Brent CIF Rotterdam and initially the assessment will be launched as the existing Dated Brent basket with Cost Insurance and Freight (CIF) accounted for from Rotterdam.
- Energy-related carbon dioxide emissions stayed virtually at the same level for the second consecutive year in 2015, even though the global economy continued to grow, owing to a surge in renewable power around the world, an analysis of preliminary data is confirmed by the International Energy Agency (IEA). "The IEA preliminary data suggest that electricity generated by renewables played a critical role, having accounted for around 90% of new electricity generation in 2015. The world's largest emitters, China and the United States, both showed reductions in greenhouse gas emissions in 2015, the Paris-based monitoring organisation noted. In particular, emissions decreased by 1.5% in China, as use of coal went down for the second year in a row. Meanwhile, in the United States, emissions dropped by 2%, as a distinct shift from coal to natural gas use in electricity generation occurred, according to the IEA analysis.
- OPEC has kept the forecast of global oil demand in 2016 to the level 94.23 mln bpd, which is 1.25 mln more than last year. The demand for oil the cartel is expected to increase by 1.8 mln bpd compared with last year, and will reach 31.5 mln bpd. Production outside of OPEC will be reduced by 700 thousand bpd to 56.39 mln bpd.



Kazakhstan market headlines

- Economy Minister Yerbolat Dosayev said the economy was expected to grow 0.5% in 2016, down from a previous forecast of 2.1%. Asian Development Bank lowered the forecast of GDP growth of Kazakhstan in 2016 from 3.3% to 0.7%. EDB forecasts Kazakhstan GDP growth in 2016 at 0.1-0.5%.
- According to the DeGolyer and MacNaughton report proved plus probable (2P) reserves of liquid hydrocarbons as at 31 December 2015 excluding the Company's stakes in JV Kazgermunai LLP, CCEL and PetroKazakhstan Inc. were 152 mln tonnes (1,115 mln barrels), which is 15% more than at the end of 2014 mainly due to the involvement in the development of reserves through the implementation of more effective geological and technical measures, including the drilling of wells. Proved (1P) reserves of liquid hydrocarbons as at 31 December 2015 were 99 mln tonnes (723 mln barrels), and proved, probable and possible (3P) reserves stand at 204 mln tonnes (1,491 mln barrels).
- Oil production in Kazakhstan's Kashagan oil field is planned to resume in the autumn of 2016, said a message of the Caspian Pipeline Consortium (CPC), via a pipeline system of which it is planned to transport oil from this field. The geological reserves of Kashagan are estimated at 4.8 bln tonnes of oil.
- At present, over a half of all oil wells operating in the territory of Western Kazakhstan are more than 20 years old and in need of modernisation. To date, a total of about 32,000 oil wells operate in Western Kazakhstan. In addition to the need for major repairs, another fairly serious problem is the annular pressure observed in the previously mothballed plants. There are 793 such wells to date, and their number increases every year.
- Standard & Poor's Ratings Services lowered its long- and short-term foreign and local currency issuer credit ratings on sovereign wealth fund and joint stock company Samruk-Kazyna to "BBB/A-3" from "BBB/A-2". The outlook is negative, the agency said 25 February. S&P also lowered our Kazakhstan national scale rating on the company to "kzAA" from "kzAA+".
- On 25 March, Kanat Bozumbayev has been appointed Minister of Energy of Kazakhstan. The Decree was signed by the president of Kazakhstan Nursultan Nazarbayev.
- Kazakhstan has indicated that it has no plans to freeze its oil output, as suggested by a group of major producers, and would instead ramp up production to its original target of 77 mln tonnes per year if the oil price stays above \$40 a barrel.
- "Taking into account the trends in global markets and oil price at the border between Kazakhstan and China, today's oil supplies to China do not seem to be attractive for oil companies of West Kazakhstan. Currently, the working group, established at the level of the Ministry of Energy, together with the Chinese side is carrying out price formation while supplying Kazakh oil to China and determining the resource base for such supplies", KTO said to KazTAG in its written response.
- Kazakhstan's government has concluded it has no preemptive right to buy BG Group Plc's stake in the Karachaganak oil and gas field because of the company's takeover by Royal Dutch Shell Plc. Kazakhstan said in September it was studying whether it had the right to buy the stake in Karachaganak, the country's second-largest oil-producing venture, following the change in ownership. On 15 February Shell acquired BG Group in the biggest oil-industry acquisition in a decade.
- Standard & Poor's (S&P) Ratings Services has affirmed "BBB/A-3" ratings on Kazakhstan on strong fiscal and debt position. The outlook remains negative. The downgrade results from Standard & Poor's materially lowering its oil price assumptions. According to experts, "black gold" low cost would have an adverse effect on Kazakhstan's economy growth prospects.

Tax Burden Coefficient

The Ministry of Finance approved a procedure for the calculation of the tax burden coefficient for taxpayers (tax agents). The coefficient is calculated as a ratio of the assessed tax liabilities and other obligatory payments to the state to the aggregate annual revenue of a taxpayer without adjustments provided by Article 99 of the Tax Code. The following taxes are not included in the taxes and other obligatory payments for the calculation of the coefficient:

- Income tax withheld at the source of the payment;
- Indirect taxes paid for an importation of goods;
- VAT if the total annual VAT due to the state is less than an excess input VAT resulted for the year.

Statistical data on average tax burden coefficients for various industries are provided in an attachment to the Tax Risk Management Criteria.

Realisation on a Permanent Basis for VAT Purposes

A governmental resolution introduced changes to the definition of realization on a permanent basis for VAT purposes. The new wording of the definition states that realization of goods, works and services subject to zero-rate VAT are regarded as realization on a permanent basis if it takes place at least once per quarter for three consequent quarters. The definition also establishes that the realization in each such quarter will be regarded as realization on a permanent basis.

The resolution entered into force on 24 February 2016.

Natural Gas Pricing Methodology

In accordance with the provisions of the Transfer Pricing Law, the Government approved natural gas pricing rules. The rules set a formula for the calculation of the natural gas sales price under sale-purchase transactions subject to transfer pricing regulations, except for natural gas swaps. The resolution came into effect on 7 December 2015.

Customs Duty on Export of Crude Oil

An order of the Ministry of the National Economy introduced progressive export customs duty rates depending on the average market prices for crude oil for a preceding period. The progressive rates entered into effect on 1 March 2016. The preceding period is a period from 20th day of the month two months before the month of application of the export

duty rate to 20th day of the month preceding the month of application of the export duty rate. The maximum export duty rate of USD 236 per tonne corresponds to the average crude oil price of USD 185 per barrel. Export duty will not apply (zero rate) to the exportation of crude oil if the average crude oil price is below than USD 25 per barrel.

The authorized state authorities calculate the average crude oil price for a preceding period on a monthly basis and publish the calculated price on its official web site by 25th day of the month preceding the month of application of the corresponding export duty rate. **Exporters apply the established export duty rate** for one month.

The order also decreased an export duty rate on fuel oil (from USD 60 to USD 30 per ton) and approved a procedure for the calculation of export duty rates on certain oil products. According to the procedure, an exportation of certain oil products is not subject to export customs duty if the average price of crude oil is below than USD 187.5 per tonne.

Key figures of Oil & Gas sector of Kazakhstan, 2015

Oil production, mln tonnes	79.5
Oil export, mln tonnes	61.3
Oil export, bln US\$	26.2
Refining, mln tonnes	14.6
Gas production, bln cubic metres	45.3
Consumption of natural gas, cubic metres	12.1
Export of natural gas, bln cubic metres	12.7
Export of natural gas, bln US\$	2.2
Admission to National Fund, bln tenge	1 613.2
The number of employees of subsoil users, people	58 985
All workers of oil and gas industry, people	251 000

Oil production in Kazakhstan, 2015

	Company	mln tonnes
1	Tengizchevroil	27.1
2	Karachaganak Petroleum Operating B.V.	12.0
3	Kazmunaigas EP	8.3
4	Mangistaumunaigas	6.3
5	CNPC-Aktobemunaigas	4.6
6	Kazgermunai	3.0
7	Karazhanbasmunai	2.1
8	Petrokazakhstan Kumkol Resources	1.9
9	Buzachi Operating Limited	1.7
10	South Oil	1.0

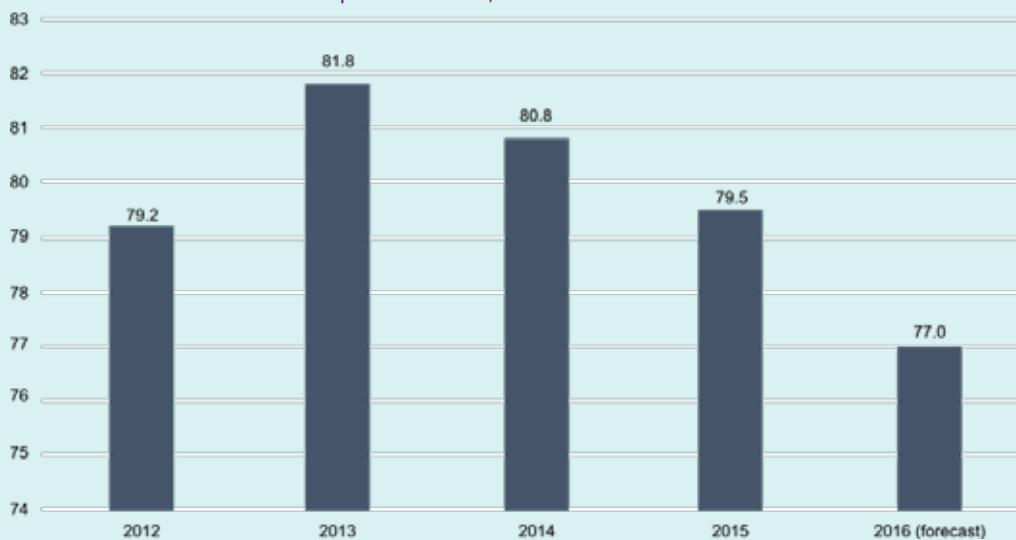
Source: Petroleum Journal

Production of natural gas in Kazakhstan, 2015

	Company	mln cubic metres
1	Karachaganak Petroleum Operating B.V.	18 234
2	Tengizchevroil	14 888
3	CNPC-Aktobemunaigas	5 274
4	Zhaikmunai	1 258
5	Kazmunaigas	1 125

Source: Petroleum Journal

Oil production, mln tonnes



World's top oil producers in 2015, mln bpd



Source: US Energy Information Administration; Data includes crude oil, lease condensate, natural gas plant liquids, and refinery processing gain

Contacts



Mukhit Kossayev
Partner,
Head of Oil & Gas
KPMG Kazakhstan
& Central Asia
T: +7 (727) 298 08 98
E: mkossayev@kpmg.kz



Vassily Savin
Partner
Head of Deal Advisory
KPMG Kazakhstan
& Central Asia
T: +7 (727) 298 08 98
E: vsavin@kpmg.kz



Rustem Sadykov
Partner,
Head of Tax & Legal
KPMG Kazakhstan
& Central Asia
T: +7 (727) 298 08 98
E: rsadykov@kpmg.kz



Eduard Yegay
Director,
Deal Advisory
Transaction Services
KPMG Kazakhstan
& Central Asia
T: +7 (727) 298 08 98
E: eyegay@kpmg.kz



Arman Nurkin
Associate Director,
Deal Advisory,
Corporate Finance
KPMG Kazakhstan
& Central Asia
T: +7 (727) 298 08 98
E: anurkin@kpmg.kz



Karlygash Kaltayeva
Head of Marketing
Department
KPMG Kazakhstan
& Central Asia
T: +7 (727) 298 08 98
E: kkaltayeva@kpmg.kz

Almaty office

180 Dostyk Avenue
Almaty 050051
T: +7 727 298 08 98
F: +7 727 298 07 08
E: company@kpmg.kz

Astana office

Samal 12
Astana 010000
T: +7 7172 55 28 88
F: +7 7172 55 28 00
E: company@kpmg.kz

Atyrau office

34A Satpayev Street
Atyrau 060011
T: +7 7122 55 62 00
F: +7 7122 55 62 02
E: company@kpmg.kz

www.kpmg.kz

Your feedback and input are important for us.

Please take some time to complete feedback form and send it via email to ru-fmkzentr@kpmg.kz.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.